Projecting Residential Savings in New Jersey's Telephone Market

One Year After Verizon's Entry into the New Jersey Long-Distance Market

Prepared by the Telecommunications Research and Action Center (TRAC)
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Synopsis

The Telecommunications Research Action Center (TRAC) projects that within one year of Verizon's entry into the long-distance market, more than 750,000 New Jersey customers will switch to Verizon's long-distance service. As shown in Table 1, these customers could realize between $22 million and $167 million of annual statewide savings due to increased competition in the long-distance telephone market. These savings affect low-volume and day users most significantly.

Table 1:
Summary of Projected New Jersey Consumer Savings One Year After Verizon's Entry Into the New Jersey Long-Distance Market

Savings	Low-estimate	High-estimate
Statewide (annual)	$ 22,214,382	$ 166,838,038
Individual Customer (annual)	$ 29.47	$ 221.33
Statewide (monthly)	$ 1,851,199	$ 13,903,170
Individual Customer (monthly)	$ 2.46	$ 18.44
Customers Affected	753,797	753,797

Background

The purpose of this report is to estimate the potential savings that New Jersey consumers could reasonably expect to achieve on their long-distance telephone bills one year after Verizon's entry into the long-distance market. Over the last two years, TRAC has monitored the impact of state telecommunications regulatory activity on consumers in a number of states. As with each of these previous studies, this examination of New Jersey was conducted to ascertain if greater competition in the long-distance telephone market would yield financial savings to consumers. TRAC has found that increased competition in the local and long-distance telephone markets provides consumers with greater choice and lower overall telephone bills.

A TRAC study completed in April 2001 concluded that one year after Verizon's entry into the New York long-distance market, more than 1.7 million residential customers had switched to Verizon's long-distance offerings. Those customers were projected to save between $79 and $284 million annually on their long-distance telephone bills. A September 2001 TRAC report estimated that consumers in Pennsylvania, Illinois, Florida and Georgia could collectively save between $200 and $730 million a year. A November 2001 TRAC study of the California market revealed potential consumer savings resulting from greater competition in the telecommunications market of $89 to $354 million annually.

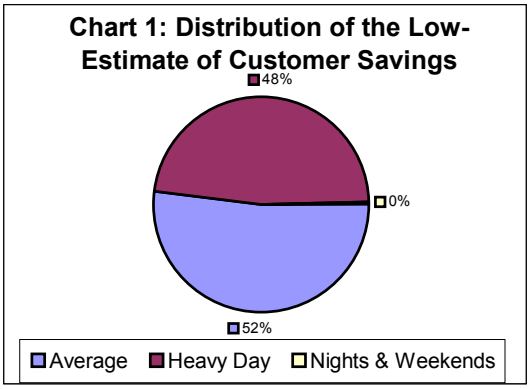
This TRAC New Jersey report uses the most up-to-date rate information included in the soon-to-be-released TRAC's *TeleTips(sm) Residential Long-Distance Comparison Chart*. This rate information includes a wide variety of plans, including Verizon's. The methodology used in this TRAC examination is based closely on that used in the TRAC New York study. Additionally, the same estimates of customer telephone calling habits, specifically frequency and usage of long-distance calls, used in the New York study were used for this study. The number of customers projected to be affected by a new entrant in the long-distance market in New Jersey was in part based on the percentage of customers affected in New York. Further explanation of this report's methodology and assumptions can be found in Appendix A (Methodology).

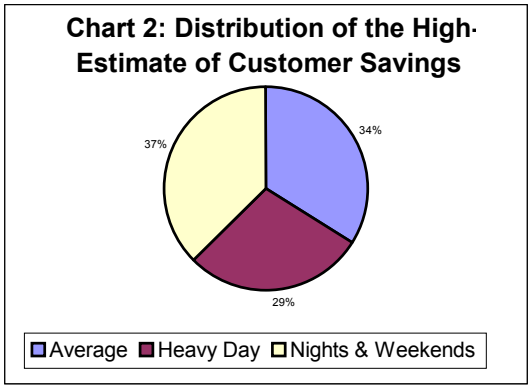
Discussion of Study Results

One year after increased competition is allowed in New Jersey's long-distance market, TRAC projects that approximately 750,000 customers could reasonably be expected to switch to Verizon's long-distance service.

The low-end of annual residential long-distance savings that could reasonably be expected in the wake of Verizon's entry into the long-distance market is approximately $22 million and the high-end is $167 million. New Jersey consumers could reasonably expect savings between $1.8 and $13.9 million each month one year after Verizon's entry into the long-distance market. Each of the approximately 750,000 customers who might switch to Verizon for long-distance service could reasonably be expected to save between $2.46 and $18.44 a month, or $29.47 and $221.33 a year. Appendix B provides detail on how various consumer calling patterns result in differing degrees of savings on long-distance bills.

Charts 1 and 2, below, demonstrate the difference in distribution between this report's low and high estimates of customer savings. Consumers who are already subscribed to the best rate plans offered by competitors are at or close to the low estimate of consumer savings. There are less savings to be had by these consumers because they are already subscribed to a plan that is cost effective for their usage. However, Chart 1 shows that they still realize significant savings by switching to Verizon if they tend to make most of their phone calls during the day. Customers who switch from an industry average rate plan to Verizon are at or near the high estimate of consumer savings. There is more potential for savings with these consumers because they are subscribed to a standard plan or one that is not cost effective for their usage. Chart 2 shows that these customers will save money regardless of the time of day / days of the week of their usage.





Appendix C shows that Verizon's entry into New Jersey's long-distance market would especially benefit low-volume users. Low-volume users are typically comprised of low-income consumers and older Americans. A user making fewer than six calls a month that are spread evenly over days, nights and weekends should expect to save between 18% to 120% on his/her monthly phone bill. He or she would save anywhere from $0.80 to $5.33 per month and the new monthly phone bill would be $4.45 a month.
A user who makes less than 6 calls a month that are concentrated in the day time should expect to save between 43% to 127% on his/her monthly phone bill. This user would save $1.57 to $4.68 per month and would have a new monthly phone bill of $3.68 a month. A user who makes less than six calls a month and concentrates his/her calls on nights and weekends should expect to save between 22% to 147% on his/her monthly phone bill. This represents savings of $1.00 to $6.57 per month. This user's new monthly phone bill would be $4.47 a month.

CONCLUSION

This report of the New Jersey marketplace illustrates how the addition of one competitor to the marketplace can result in significant consumer savings. TRAC believes that New Jersey consumers could realize between $22 million and $167 million in savings on their long-distance telephone bills one year after increased competition in the long-distance market. During that timeframe, TRAC estimates that more than 750,000 customers might switch their long-distance service to Verizon. TRAC projects that an individual customer could achieve up to $221 in annual long-distance savings once Verizon enters the long-distance market. Even if a low range estimate of savings is used, New Jersey's consumers could save $1.8 million a month due to consumers switching to Verizon's long-distance service.

TRAC projects that residential customers would benefit greatly from increased competition and choice in the New Jersey long-distance telephone market. The sooner consumers are given greater choices in their service providers, the sooner they will be able to realize those savings.

Appendix A

Methodology

TRAC developed the methodology for this report based on its experience conducting the New York, Multi-State and California studies. Although each state is unique, TRAC believes that the similarities between New Jersey and New York outweigh their differences. In general, TRAC based its calculations of projected savings on updated telephone rates and population variation while keeping other variables constant. Below is a discussion of the issues TRAC considered while developing this study.

Data Collection

Data was based on TRAC's soon-to-be-released TRAC's *TeleTips(sm) Residential Long-Distance Comparison Chart* report. The data collection methodology can be summarized as follows:

- Information detailing residential phone rates was obtained by researching web sites of major phone companies. Any information that could not be found on the web sites was obtained from telephone company customer service representatives and was then confirmed with at least one other company representative. TRAC also validates its data with representatives of all long-distance companies included in the chart.

- TRAC divided callers into calling baskets based on their levels of phone usage and the time of day of that usage. Callers were divided into three categories: those who make most of their calls during the day, those who make most of their calls at night or on the weekends, and those whose calls are spread evenly over days, nights and weekends.

- To represent consumer phone usage more accurately, TRAC factored in an assortment of directory assistance and calling card calls for long-distance service.

Calculation of Savings

The calculation of consumer savings was conducted using the same methodology that was used in the 1999 and 2001 TRAC studies of New York. That methodology can be summarized as follows:

- The study makes every attempt possible to choose conservative assumptions regarding which calling plans the residential customers subscribed to before customers switched to the Regional Bell Operating Company (RBOC) for long-distance service or switched away from the RBOC for local service. Consequently, the amount of consumer savings achieved is most likely underestimated.

- Long-distance savings are determined by comparing the ILEC's prices to those of other long-distance companies. The range of possible consumer savings is based on conservative assumptions regarding which calling plans the residential customers subscribed to before they switched to the ILEC for long-distance service. Customers that switched service from the "industry average" tended to save a significant amount of money. The price differential between the industry average price and Verizon's lowest rates was considered the "high-estimate" of possible consumer savings.

- It was estimated that the same proportion of consumers if given the opportunity will switch phone service in New Jersey as did in New York. TRAC believes that consumers react similarly to increased market competition regardless of location.

- As mentioned previously, in New York, 1.7 million customers had switched to Verizon's long-distance service one year after Verizon had entered the long-distance market there. Since New Jersey's population is 44%, of that of New York as of 2000, TRAC estimated that the number of consumers affected by Verizon's entrance into the long-distance market should consequently be 44% less. 753,797 New Jersey customers will probably switch to Verizon long-distance telephone service within one year after Verizon has entered New Jersey's long-distance market.

Appendix B

New Jersey's Projected Residential Customer Savings One Year After Increased Competition in the Long-Distance Market

Calling Basket (Pattern of Calls per Month)		Customers Affected	Low-Estimate of Monthly Customer Savings	High-Estimate of Monthly Customer Savings	Low-Estimate of Monthly Savings	High-Estimate for Monthly Savings	Low-Estimate of Annual Savings	High-Estimate of Annual Savings
Average Daily Use	6 Calls	62,817	$ 0.80	$ 5.33	$ 50,253	$ 391,303	$ 603,039	$ 4,016,242
	12 Calls	62,817	$ 3.10	$ 9.25	$ 194,417	$ 633,347	$ 2,333,009	$ 6,974,151
	18 Calls	50,253	$ 3.42	$ 14.78	$ 171,613	$ 834,385	$ 2,059,361	$ 8,915,255
	36 Calls	37,690	$ 5.54	$ 24.66	$ 208,802	$ 1,178,528	$ 2,505,619	$ 11,153,169
	60 Calls	25,127	$ 5.23	$ 37.81	$ 131,412	$ 896,292	$ 1,576,942	$ 11,399,812
	180 Calls	12,563	$ 16.49	$ 93.15	$ 207,168	$ 1,343,924	$ 2,486,020	$ 14,042,923
Heavy Night Use	6 Calls	62,817	$ 1.57	$ 4.68	$ 98,622	$ 474,184	$ 1,183,465	$ 3,530,796
	12 Calls	62,817	$ 2.79	$ 8.85	$ 174,944	$ 565,867	$ 2,099,331	$ 6,669,616
	18 Calls	50,253	$ 3.75	$ 10.61	$ 188,197	$ 725,835	$ 2,258,362	$ 6,399,397
	36 Calls	37,690	$ 5.37	$ 23.17	$ 202,394	$ 937,586	$ 2,428,732	$ 10,478,371
	60 Calls	25,127	$ 6.32	$ 33.86	$ 158,800	$ 1,006,018	$ 1,905,597	$ 10,208,210
	180 Calls	12,563	$ 5.38	$ 70.10	$ 67,590	$ 1,332,629	$ 811,085	$ 10,567,620
Heavy Night and Weekend Use	6 Calls	62,817	$ 1.00	$ 6.57	$ 62,817	$ 409,272	$ 753,799	$ 4,953,969
	12 Calls	62,817	$ 0.74	$ 10.14	$ 46,170	$ 537,628	$ 554,042	$ 7,640,509
	18 Calls	50,253	$ 0.54	$ 15.61	$ 26,885	$ 659,236	$ 322,623	$ 9,412,155
	36 Calls	37,690	$ (0.70)	$ 27.20	$ (26,194)	$ 1,005,358	$ (314,333)	$ 2,300,146
	60 Calls	25,127	$ (3.41)	$ 42.75	$ (85,556)	$ 1,090,513	$ (1,026,670)	$ 12,889,313
	180 Calls	12,563	$ (2.16)	$ 101.40	$ (27,137)	$ 1,273,865	$ (325,640)	$ 15,286,385
Total Long-Distance Savings		753,797	$ 2.46	$ 18.44	$ 1,851,199	$ 13,903,170	$ 22,214,382	$ 166,838,038

Appendix C

Relative Monthly Savings After Switching to Verizon Long-Distance Service

Calling Basket (Pattern of Calls per Month)	Monthly Bill for the Lowest Priced Verizon Plan	Low-Estimate of Monthly Individual Customer Savings	High-Estimate of Monthly Individual Customer Savings	Low-Estimate of % Increase in Savings When Switching to Verizon	High-Estimate of % Increase in Savings When Switching to Verizon
Avg. Use 6 Calls	$ 4.45	$ 0.80	$ 5.33	**18%**	**120%**
Avg. Use 12 Calls	$ 12.08	$ 3.10	$ 9.25	26%	77%
Avg. Use 18 Calls	$ 19.07	$ 3.42	$ 14.78	18%	78%
Avg. Use 36 Calls	$ 35.63	$ 5.54	$ 24.66	16%	69%
Avg. Use 60 Calls	$ 56.67	$ 5.23	$ 37.81	9%	67%
Avg. Use 180 Calls	$ 130.92	$ 16.49	$ 93.15	13%	71%
Heavy Day 6 Calls	$ 3.68	$ 1.57	$ 4.68	**43%**	**127%**
Heavy Day 12 Calls	$ 10.72	$ 2.79	$ 8.85	26%	83%
Heavy Day 18 Calls	$ 16.43	$ 3.75	$ 10.61	23%	65%
Heavy Day 36 Calls	$ 30.83	$ 5.37	$ 23.17	17%	75%
Heavy Day 60 Calls	$ 48.91	$ 6.32	$ 33.86	13%	69%
Heavy Day 180 Calls	$ 120.05	$ 5.38	$ 70.10	4%	58%
Heavy Night & Weekend 6 Calls	$ 4.47	$ 1.00	$ 6.57	**22%**	**147%**
Heavy Night & Weekend 12 Calls	$ 12.42	$ 0.74	$ 10.14	6%	82%
Heavy Night & Weekend 18 Calls	$ 21.52	$ 0.54	$ 15.61	2%	73%
Heavy Night & Weekend 36 Calls	$ 39.84	$ (0.70)	$ 27.20	(2)%	68%
Heavy Night & Weekend 60 Calls	$ 62.67	$ (3.41)	$ 42.75	(5)%	68%
Heavy Night & Weekend 180 Calls	$ 148.61	$ (2.16)	$ 101.40	(1)%	68%